

# Instructions for Form FTB 3506

## Child and Dependent Care Expenses Credit

### What's New

Beginning in 2003, the following changes were made:

- **Maximum qualifying expenses** – California increased the maximum qualifying expenses to \$3,000 for one qualifying person and \$6,000 for two or more qualifying persons.
- **Credit Percentage** – California decreased the percentages of the federal credit allowed.

### General Information

You must attach the completed form FTB 3506 to your return.

### A Purpose

If you paid someone to care for your child or other qualifying person so you (and your spouse, if married) could work or look for work in 2003, you may be able to claim the credit for child and dependent care expenses. However, you must have earned income to do so. If you qualify to claim the credit, use form FTB 3506 to figure the amount of your credit.

For additional definitions, requirements, and instructions, get federal Form 2441 or Publication 503, Child and Dependent Care Expenses.

### B Differences in California and Federal Law

The differences between California and federal law are as follows:

- California adjusted gross income must be \$100,000 or less to qualify for the California credit.
- Never married parents, who have lived apart at all times during the last six months of the year, may be treated differently for federal purposes.
- Federal law increased the amount of earned income a disabled or full-time student spouse is treated as having earned. California did not conform.
- The California credit is a percentage of the federal credit as modified by California law.
- Your primary home for you and your qualifying person(s) must be in California.
- The California credit is refundable.

### C Qualifications

You may take the credit if **all nine** of the following apply.

1. If you are married, you must file a joint return. For an exception, see Section E, Married Persons Filing Separate Returns, on page 2.
2. Care must be provided for one or more qualifying persons. See Section D, Qualifying Person Defined, on this page.
3. You paid for care so you (and your spouse, if married) could work or look for work. However, if you did not find a job and have no earned income for the year, you do not qualify for the credit. If your spouse was a student or disabled, see the instructions for Part III, line 5.
4. You (and your spouse, if married) paid over half the cost of keeping up your home for the qualifying person(s). The cost includes rent, mortgage interest, real estate taxes, utilities, home repairs, and food eaten in the home.
5. You and the qualifying person(s) live in the same home.
6. Your primary home (where you and your qualifying person(s) lived) must have been in California.
7. The person who provided care was not your spouse or a person for whom you can claim a dependent exemption. Generally, the person who provided the care cannot be a parent of the individual for whom care was provided. If your child provided the care, the child must have been age 19 or older by the end of 2003.
8. You report the required information about the care provider(s) in Part II, line 1, and the information about the qualifying person(s) in Part III, line 2.
9. Your California adjusted gross income is \$100,000 or less.

### D Qualifying Person Defined

#### Rules for Most People

A qualifying person is:

1. A child under age 13. You must qualify to claim the dependent exemption credit for this child. Children turning 13 during the year qualify only for the part of the year they were 12 years old.
2. Your spouse who was physically or mentally incapable of self-care.
3. Your dependent who was physically or mentally incapable of self-care. You must qualify for the dependent exemption credit for this person (or you could have claimed the dependent exemption credit except the person had gross income of \$3,050 or more).

### Divorced, Separated, or Never Married Parents

For divorced, separated, or never married parents, there are special rules for determining if your child is your qualifying person. A child can only be the qualifying person of one parent when the parents are filing separate returns. Even if both parents pay for child care for the same child, both parents cannot qualify for the credit. Some custody agreements designate which parent is entitled to the credit. However, the designated parent must still meet all the qualifications in Section C, Qualifications, to claim the credit.

### Custodial Parent

You are the custodial parent if you had physical custody of your child longer than the other parent during the calendar year. On days where custody is shared, the parent having custody of the child for more than 12 hours is considered to have custody for that day. If you and the other parent have physical custody for the same number of days, then neither you nor the other parent is the custodial parent.

### Divorced or Separated Parents

Use the table below to decide whether you must use the "Rules for Most People" or the "Rules for Divorced or Separated Parents," on this page.

Read the following four statements to see if they are all true.	Are all four statements true?
<ol style="list-style-type: none"><li>1. Your child was under 13 or physically or mentally incapable of self-care when the care was provided.</li><li>2. You are divorced or legally separated from the other parent, or you were still married to the other parent, but lived apart at all times during the last 6 months of 2003.  To be divorced or legally separated, you must have a final decree of divorce or legal separation issued by the court. Having filed a petition for divorce or legal separation, or living apart from a spouse is not the same as being divorced or legally separated under a final decree of divorce or legal separation.</li><li>3. You and the other parent, together, had custody of the child for more than half of 2003.</li><li>4. You and the other parent, together, provided more than half the child's support for 2003.</li></ol>	<p><b>Yes.</b> Use the "Rules for Divorced or Separated Parents" on this page.</p> <p><b>No.</b> Use the "Rules for Most People" on this page.</p>

#### Rules for Divorced or Separated Parents

Which parent had physical custody of the child for more time during 2003?	And	Is the child your qualifying person?
You	You can claim the dependent exemption credit for the child.	<b>Yes.</b> The child is your qualifying person.
You	You met all of the requirements for the dependent exemption except that you did not provide more than half of the child's support during the year.	<b>Yes.</b> The child is your qualifying person.
The other parent		<b>No.</b> The child is <u>not</u> your qualifying person. Even if you are able to claim the dependent exemption credit, the child is still not your qualifying person.
You and the other parent had physical custody for the same number of days in 2003		<b>No.</b> The child is <u>not</u> your qualifying person. Neither parent qualifies for this credit.

## Never Married Parents

Use the table below to decide whether you must use the "Rules for Most People," on page 1 or the "Rules for Never Married Parents" below.

Read the following five statements to see if they are <u>all</u> true.	Are all five statements true?
1. Your child was under 13 or physically or mentally incapable of self-care when the care was provided. 2. You and the other parent were never married. 3. You lived apart from the other parent at all times during the last 6 months of 2003. 4. You and the other parent, together, had custody of the child for more than half of 2003. 5. You and the other parent, together, provided more than half the child's support for 2003.	<b>Yes.</b> Use the "Rules for Never Married Parents" on this page.  <b>No.</b> Use the "Rules for Most People" on page 1.

Rules for Never Married Parents		
Which parent had physical custody of the child for more time during 2003?	And	Is the child your qualifying person?
You	You can claim the dependent exemption credit for the child.	<b>Yes.</b> The child is your qualifying person.
You	You met all of the requirements for the dependent exemption except that you did not provide more than half of the child's support during the year.	<b>Yes.</b> For tax years 2002 and after.  <b>No.</b> For tax years 2000 and 2001.
The other parent		<b>No.</b> The child is <u>not</u> your qualifying person. Even if you are able to claim the dependent exemption credit, the child is still not your qualifying person.
You and the other parent had physical custody for the same number of days in 2003.		<b>No.</b> The child is not your qualifying person. Neither parent qualifies for this credit.

## E Married Persons Filing Separate Returns

Generally, if you are married, you must file a joint return to claim the credit. However, you can take the credit on your separate return if:

- You meet all three requirements below:
  - You lived apart from your spouse at all times during the last six months of 2003.
  - The qualifying person(s) lived in your home more than half of 2003.
  - You provided over half the cost of keeping up your home.
- You meet all the other qualifications in Section C, Qualifications.

## Specific Line Instructions

### Part I

#### Unearned Income and Other Funds

List the source and amount of **any** money you received in 2003 that is not included in your earned income (line 4 and line 5) but that was used to support your household. Include child support, property settlements, public assistance benefits, court awards, inheritances, insurance proceeds, pensions and annuities, social security payments, workers' compensation, unemployment compensation, interest, or dividends.

### Part II

#### Line 1

Complete column (a) through column (e) for each person or organization that provided the care. You can use federal Form W-10, Dependent Care Provider's Identification and Certification, or any other source listed in the instructions for Form W-10 to get the information from your care provider. If your provider does not give you the information, complete as much of the information as possible and explain that your provider did not give you the information you requested.

If you do not give correct and complete information, your credit may be disallowed unless you can show you used due diligence in trying to get the required information.

#### Columns (a) and (b)

Enter your care provider's complete name (or business name) and address. Also, check the box indicating whether your care provider is a person or an organization. If you were covered by your employer's dependent care plan and your employer furnished the care (either at your workplace or by hiring a care provider), enter your employer's name in column **(a)**. Next, enter "See W-2" in column **(b)**. Enter your employer's telephone number in column **(d)**. Leave column **(c)** and column **(e)** blank. If your employer paid a third party (not hired by your employer) on your behalf to provide the care, you must give information about the third party in column (a) through column (e).

#### Column (c)

If your care provider is:

- An individual, enter his or her social security number.
- Not an individual, enter the care provider's federal employer identification number (FEIN).
- A tax-exempt organization, enter "Tax-Exempt."

#### Column (d)

Enter the telephone number of your care provider, including area code. We may call to verify the provider information.

#### Column (e)

Enter the total amount you **actually paid** in 2003 to your care provider. Also include amounts your employer paid to a third party on your behalf. It does not matter when the expenses were incurred. Do not reduce this amount by any reimbursement you received.

### Part III

#### Line 2

Complete column (a) through column (e) for each qualifying person. If you have more than three qualifying persons, attach a sheet of paper to your return with the required information and write "see attached." Be sure to put your name and social security number (SSN) on the sheet.

#### Column (a)

Enter each qualifying person's name.

#### Column (b)

Enter the social security numbers of the first two qualifying persons on Form 540, line 42 and line 43; Form 540A, line 28 and line 29; or Long Form 540NR, line 51 and line 52.

You must enter the qualifying person's social security number. Be sure that the name and social security number match the qualifying person's social security card. Otherwise, we may reduce or disallow your credit. If the person was born in, and later died in, 2003, and does not have a social security number, enter "Deceased" in column (b) and attach a copy of the person's birth and death certificates.

#### Column (c)

Enter the qualifying person's date of birth in the space provided or if the qualifying person is disabled (physically or mentally incapable of self-care), check the "Yes" box.

#### Column (d)

If you shared custody of the qualifying person(s), enter the percentage of time you had physical custody during 2003.

#### Column (e)

Enter the qualified expenses you incurred and paid in 2003 for the qualifying person. If the child turned 13 years old during the year, include only the qualified expenses for the part of the year the child was under 13. Do not include in column (e) qualified expenses:

- You incurred in 2003 but did not pay until 2004. You may be able to use these expenses to increase your 2004 credit.
- You incurred in 2002 but did not pay until 2003. Instead, see instructions for line 11.
- You prepaid in 2003 for care to be provided in 2004. These expenses may only be used to figure your 2004 credit.

## Line 4

### Earned Income

Includes:	Does not include:
<ul style="list-style-type: none"> <li>• Wages, salary, tips, and other taxable employee compensation</li> <li>• Net earnings from self-employment</li> <li>• Strike benefits</li> <li>• Disability payments you report as wages</li> </ul>	<ul style="list-style-type: none"> <li>• Pensions or annuities</li> <li>• Social security payments</li> <li>• Workers' compensation</li> <li>• Interest</li> <li>• Dividends</li> <li>• Capital gains</li> <li>• Unemployment compensation</li> <li>• Any nontaxable employee compensation</li> <li>• Public assistance</li> <li>• Homeowner and Renter Assistance</li> </ul>

## Line 5

### Spouse Who Was a Student or Disabled

Your spouse was a **student** if he or she was enrolled as a full-time student at a school during any 5 months of 2003. A school does not include a night school or correspondence school. Your spouse was **disabled** if he or she was not capable of self-care. Figure your spouse's earned income on a monthly basis.

For each month your spouse was a full-time student or disabled, enter on line 5 the larger of

- Your spouse's actual earned income for that month, or
- \$200 (\$400, if you have 2 or more qualifying persons).

If, in the same month, both you and your spouse were either full-time students or disabled, only one of you can be treated as having earned income of \$200 (or \$400) in that month. For any month that your spouse was not a full-time student or disabled, use your spouse's actual earned income for that month.

## Line 7

Use the chart on this page to determine the decimal amount to enter on line 7. Your federal adjusted gross income (AGI) is on Form 540A, line 12b; Form 540, line 13; or Long Form 540NR, line 13.

If your Federal AGI is:		The decimal amount on Line 7 is:
Over	But not over	
\$0	\$15,000	.35
15,000	17,000	.34
17,000	19,000	.33
19,000	21,000	.32
21,000	23,000	.31
23,000	25,000	.30
25,000	27,000	.29
27,000	29,000	.28
29,000	31,000	.27
31,000	33,000	.26
33,000	35,000	.25
35,000	37,000	.24
37,000	39,000	.23
39,000	41,000	.22
41,000	43,000	.21
43,000	No limit	.20

## Line 9

Use the chart below to determine the decimal amount to enter on line 9.

If your California AGI from Form 540A, line 14; Form 540, line 17; or Long Form 540NR, line 21 is:	The decimal amount to enter on Line 9 is:
\$40,000 or less	.50
Over \$40,000 but not over \$70,000	.43
Over \$70,000 but not over \$100,000	.34
Over \$100,000	<b>Stop. You do not qualify for this credit.</b>

## Line 11

If you had qualified expenses for care that was provided in 2002, but that you paid for in 2003, you may be able to increase your credit for 2003. Complete the worksheet on Side 2 of form FTB 3506. You will need a copy of your 2002 California return to complete the worksheet.

## Part IV

### Line 13- Line 15

Nonresidents and part-year residents must complete and attach Schedule CA (540NR), California Adjustments - Nonresidents or Part-Year Residents, to their Long Form 540NR tax return. If Part I of Schedule CA (540NR) is not fully completed, your credit may be disallowed.

You must maintain your primary home in California for yourself and your qualifying person(s) during the year or portion of the year to qualify for the credit. Full-year nonresidents of California who retained their main home in another state do not qualify for this credit.

Nonresidents and part-year residents must calculate the percentage of the Child and Dependent Care Expenses Credit that they may be qualified to take. It is based on the percentage from Long Form 540NR, line 25a.

## Part V

### Line 16

Dependent care benefits are:

- Amounts an employer paid directly to you (or your spouse, if married), or to your care provider for the care of your qualifying persons while you worked.
- A day-care facility provided by your employer.
- Generally deducted from your salary.
- Shown in box 10 of your 2003 Form(s) W-2.

## Line 17

If you had a flexible spending account, any amount included on line 16 that you did not receive because you did not incur the expense is considered forfeited. Do not include amounts you expect to receive at a future date.

## Line 19

Enter the total of all qualified expenses incurred in 2003. It does not matter when the expenses were paid.

**Example:** You received \$2,000 cash under your employer's dependent care plan for 2003. The \$2,000 is shown in box 10 of your Form W-2. You incurred \$900 of qualified expenses in 2003 for the care of your 5-year-old dependent child. You would enter \$900 on line 19, but would report the entire \$2,000 on line 16.

For all other lines, follow specific line instructions on the form. For additional information, see federal Form 2441 or Publication 503.

## Worksheet

### Line 12 and line 14

You will need to get the 2002 form FTB 3506 instructions to complete the Credit for 2002 Expenses Paid in 2003 Worksheet. You can get forms from our Website at [www.ftb.ca.gov](http://www.ftb.ca.gov) or by calling (800) 338-0505.

## Line 12

Enter the decimal amount from the chart in the line 7 instructions of the **2002** form FTB 3506 that corresponds to your **2002** federal adjusted gross income.

## Line 14

Enter the decimal amount from the chart in the line 9 instructions of the **2002** form FTB 3506 that corresponds to your **2002** California adjusted gross income